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FAR EAST/PACIFIC BRANCH

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INTELLIGENCE HIGHLIGHTS -- WEEK OF 10 FEBRUARY - 16 FEBRUARY 1948

GENERAL

China will probably accept US recovery program for Japan

For many months, both Chinese Government officials and the Chinese press have made vigorous attacks against US policy in Japan, charging that US efforts to restore that country economically and politically would revive the Japanese menace in Asia. During the past week, however, three separate reports indicate with reasonable certainty that the Chinese Government will support the US economic recovery program for Japan ("Operation Crank-up").

25X1 [redacted] a "high official source" in Nanking stated that the Chinese Government now believes that (a) "Crank-up" is aimed at rebuilding Japanese economic stability as a safeguard against Communist influences in Japan, which thrive on economic chaos, and (b) China's interests will be served by any such brake upon the possible spread of Communism in Japan and thence to China. The Nanking official added, however, that China will not countenance Japan's being rebuilt into a military bulwark of anti-Communism, since there is no guarantee against a resurgence of aggression by a rearmcd Japan.

Another report states that Chu Shih-ming, former chief of the Chinese Mission to Japan, urged China to support "Crank-up", adding that the US was not attempting to rebuild Japan as an aggressive threat and that a prosperous, peaceful Japan would benefit China.

25X1 [redacted] Chinese Foreign Minister Wang Shih-chieh has declared that China is ready to support any measure of recovery for former enemy countries provided there are definite safeguards against their military resurgence.

Since the Chinese Government is already faced with strong Communist military forces within China itself, it appears unlikely that Chinese support for "Crank-up" is motivated by fears of Communist expansion within China via Japan. Rather, the probable reason is that the Chinese Government realizes that "Crank-up" will proceed whether China approves or disapproves, and that strong dissent by China might react upon US aid measures for China itself. While China will thus probably endorse "Crank-up" in principle, it will nevertheless remain suspicious of and oppose any economic steps that even indirectly increase Japan's long-run military potential-- Chinese sensitivity on this point will probably not diminish. Because of fears of Japanese military resurgence, and of its own position vis-a-vis the USSR, China is not expected to alter materially its general stand on the Japanese peace treaty issue, including the provision of effective veto powers and Soviet participation.

DOS review

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JAPAN

Japan's feudalistic family system passes. On 1 January 1948, Japan's new Civil Code abolished the traditional family system, primogeniture and the head-of-the-household system. Everyone in Japan is registered with the police and in the past the registers have been made out by families. From now on the registers show only the husband and wife relationship. The individual will be the social unit hereafter rather than the family. A child who has reached his majority may now marry without parental permission.

The abolition of the family system could eventually have far reaching effects on Japanese society and national life. The custom and requirement of blind obedience to the arbitrary dictates of the head-of-the-family is emblematic of Japanese national life where the Emperor was head of the National family and, ergo, each subject had the duty of carrying out any order issued in the Emperor's name.

Private trade results. Reuters reported on 9 February that the total volume of business approved by SCAP since the resumption of private trade negotiations on 1 September 1947 totalled 2,006 export contracts amounting to \$22,495,198 and 74 import contracts amounting to \$20,835,414.

The resumption of private trade has been hailed as a basic and major step leading to the stabilization of the postwar Japanese economy. This is so because Japan's economy depends heavily on foreign trade. However, thus far the results of the restricted private trade have been merely of an exploratory nature.

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KOREA

Significance of South Korean "United Front". One of the more startling recent political developments in South Korea has been the agreement between Rhee Syngman, Kim Koo, and Kim Kyu Sik that they will not press for elections in South Korea alone until they have sought a meeting with North Korean leaders to devise plans for an all-Korea election. This rapprochement was arranged by the Chinese Consul-General in Seoul, Liu Yu-wan, who is also the Chinese delegate on the UN Commission. In doing this, Liu seems to have been motivated by the Chinese desire to assure the maintenance of a contra-Soviet force in Korea, and by the Chinese conviction that the initial aspect of the agreement--negotiations with North Korean leaders--will fail completely and thus solidify the three key South Korean leaders into a true united front.

In maneuvering the coalition the Chinese may hope to persuade the UN Commission that sufficient political unity and stability does exist in South Korea to warrant proceeding with elections in the US Zone. Secondly, they may have been desirous of improving the status of Kim Koo, who has always been associated with the Chinese National Government. Although Kim Koo and Rhee have formed temporarily alliances before, they are bitter political enemies.

Kim, whose influence is much less than Rhee's, has always wanted an all-Korean election, as consistent with the claim of his Korean Provisional Government to sovereignty over all of Korea. His rapprochement with Rhee may represent a realization on his part that a united Korea, except one under Soviet domination, is impossible at this time.

Rhee, on the other hand, has for over a year consistently demanded immediate elections in South Korea. It is understood, however, that Rhee has only given his consent to the agreement on the understanding that if elections in South Korea are directed by the Little Assembly before consultations with North Korean leaders are completed there will be no delay in carrying out the elections.

Kim Kyu Sik apparently joined the coalition in a desperate hope that the Soviets might change their collective minds. Although Kim Kyu Sik has indicated that he will cooperate if elections are held in South Korea alone, the record will now show that he exhausted every effort to secure the elections for all of Korea and he will be guiltless, in his own eyes, of having been instrumental in permanently dividing Korea.

It is almost certain that the South Korean coalition will not achieve its primary aim of reaching an understanding with North Koreans. Moreover, since it is composed of three men of such divergent motives and political backgrounds, the coalition can only look forward to a short, unhappy life, Chinese optimism notwithstanding.

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CHINAMilitary

In Manchuria, Chinese Communist forces destroyed most of one Nationalist division in the capture of Liaoyang and badly wounded two others. At present the Communists have five columns in the area south of Mukden, while others continue to be active near Chinchow. Although Mukden is considered most vulnerable from the south, imminent thawing of the Liao and Hun rivers is expected to create a formidable natural barrier against future Communist attacks. However, strong Communist units were reported at Suchiatun, 15 miles south of Mukden, while other units have cut rail communications from Mukden to Fenki on the southeast and to Hsinmin on the west. The emphasis in Communist operations has now shifted to the Anshan area.

In Central China, the Communist general Chen Yi is once again moving north across the Lungai Railroad into Shantung, probably to regroup his units and resupply them. Nationalist claims of a crushing victory over Liu Po-cheng are unjustified with only minor activity reported in the Tapieshan.

Another Nationalist bid for US aid came this week from Wei Li-huang, commander in Manchuria, who stated that his alpha (US-equipped) divisions had ammunition sufficient for only two weeks of "defensive" combat. Although shortages probably do exist and are probably most acute in the alpha units, it is doubted whether two weeks of combat will necessitate the withdrawal of these units from the field. From Shanghai comes the statement that initial flights of the Mosquitoes recently-acquired from Canada will take place in about two weeks.

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However, if the demands are refused, the US must accept the responsibility for the consequences. An attempt is now being made by US officials to contact the Communists and arrange for the release of the man.

Deputy Prime Minister Lubzan of Outer Mongolia Republic is reported to have left for Moscow to confer with Soviet authorities on the implementation of a five-year plan for extending Soviet railways to the borders of Manchuria. A London dispatch gave details of five new railways contemplated by the USSR in collaboration with Outer Mongolia, including lines connecting Siberian provinces with areas now held by the Chinese Communists.

Economic

Currency. The blackmarket exchange selling rate at Shanghai was CN \$175,000 to US \$1 on 13 February. This is lower than the prevailing rate of CN \$190,000 of a month ago due in part to the shortage of cash just before the lunar New Year (10 February), China's traditional debt settlement season. A marked increase was noted in promissory notes in lieu of currency payments. The official "open" rate was raised from CN \$133,000 to 137,000 on 9 February.

Prices. Rice was quoted at CN \$2 million a picul on the Shanghai market when it closed on 7 February for the lunar New Year week holiday. A week before, rice was selling for less than CN \$1,500,000 a picul. The prices of meats and vegetables on 7 February were reported up 100% over January.

Banking. Regulations for settling pre-war CN dollar bank deposits as promulgated by the Ministry of Finance have met with opposition by many foreign banks operating in China. According to the scale, deposits up to 14 August 1937 are to be repaid at the rate of CN \$1,703 for a pre-war CN \$ including interest, while deposits made between 14 August 1937 and 9 December 1941 are to be repaid at 700 to 1. The US banks are reportedly willing to pay at the prescribed scale. Foreign banks in general deplore the failure of US financial institutions to take a united stand in opposition, feeling that the foreign banks are at a disadvantage in that they were closed during the war and not able to build up a reserve for such a contingency.

Foreign Trade (Sino-Soviet). Nanking figures show that in the first nine months of 1947 Nationalist China imported from the USSR goods valued at US \$891,334 (blackmarket rate) and exports to Russia amounted to US \$1,283,442. Fertilizer and paper accounted for 85% of imports, while wolfram, antimony, wood oil and bristles made up the bulk of the exports.

Tschurin & Co., operated by Vneshtorg, a Soviet trade organization, has moved several of its factories to Chiamussu, Manchuria. This company reportedly has concluded various trade agreements with the Chinese Communists.

PHILIPPINES

Deputy Chief of Staff warns against dependence on US for defense. Brigadier General Duque, Deputy Chief of Staff of Philippine armed forces, stated in a 11 February speech that the Philippines should not rely upon the U.S. for defense in case of attack despite base and military assistance pacts with the U.S. "It has been reliably reported that our country is outside the ring of U.S. defense," he declared. Apparently referring to the nation's universal military training program, General Duque appealed to Philippine youth to recognize the pressing problem of Philippine security, and suggested that national defense needs determine the amount of budget appropriations rather than vice versa.

Roxas proposes balanced budget for 1949. The first balanced budget since the war has been proposed by President Roxas to the Philippine Congress for fiscal 1949. Accomplishing it will depend on continuance of the high level of business activity which has produced much greater tax revenue than was anticipated at the start of fiscal 1948. The proposals call for a ceiling on appropriations of 285 million pesos (two pesos equal one dollar) which would be met by the present tax schedule plus certain proposed luxury and semi-luxury taxes currently before the Congress. If the latter are not enacted, Roxas cautioned that the appropriation ceiling must be reduced by 35 million, the amount of their expected yield.

It is estimated that expenditures for fiscal 1948 will be 295.7 million pesos and total receipts 232.6 million. The surplus of 64.5 million pesos at the start of this fiscal year, made possible by the U.S. loan of 120 million pesos, will be reduced to just over one million pesos in covering this year's deficit. If the forecasted tax yield is accurate and proposed appropriations are maintained, this small surplus will be carried over at the end of fiscal 1949.

The major change in the new budget calls for a cut in national defense from 78 to 57 million pesos and an increase for education from 54 to 73 million. However the cut in national defense expenditures is offset by a shift of budgetary responsibility for the Philippine Constabulary to the Department of the Interior.

AUSTRALIA

Declining strength of the Australian Labor Government. The position of the Australian Labor Party (ALP) has deteriorated considerably during the past year, pointing to defeat in the 1949 elections unless the present trend is halted. State and local elections have shown a definite swing away from Labor--reflected either in defeat of Labor candidates or a marked reduction in Labor majorities.

An analysis of current political conditions indicates that the position of the ALP has been weakened by its failure to: (1) maintain identity of interest between its political and industrial wings, i.e. between the Party and the unions; (2) retain the confidence of small businessmen, retail

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traders, and middle income groups; and (3) have the backing of State political organizations.

The growing tension between the Labor movement political and industrial sections has culminated in the recent decision of the Shop Assistants' Union to suspend affiliation with the ALP and the suggestion that a separate political organization be set up by the unions to oppose the ALP. An important factor in this tension has been the conflict between left and right wing elements. The decision of Labor Party leaders to eliminate Communist control of the unions through strict enforcement of the ALP rule that their members cannot oppose ALP candidates in political and union elections was directly responsible for the Shop Assistants' Union's action. Rank and file union members, encouraged by left-wingers, resent such steps as unwarranted interference with their freedom of action. This presents the ALP with a real dilemma. It cannot hope to enforce its policies unless it can remove Communists from dominant positions in the unions. On the other hand, the process of removing them may result in a serious split in Labor's ranks.

Public confidence in the Labor Government has been weakened by the long series of uncontrolled strikes in 1946 and 1947; the interference of the Waterside Workers in the Government's policy toward Indonesia; the nationalization of airlines and banks, regarded as steps towards the ALP's objective of complete socialization; and by continued high taxation, shortages, and controls. The speed with which the Bank Nationalization was presented and passed, and the refusal of the Government to consider a referendum in the face of widespread and vocal opposition alienated many who might otherwise have had no strong opinion on the intrinsic value of the measure itself. More recently, the Government's Price Stabilization program encountered heavy opposition from growers in Victoria, West Australia, and South Australia. Negotiations on the form of the program broke down, with the Government threatening to abandon all internal marketing activities and leave the growers at the mercy of fluctuating world prices.

Perhaps the most determined opposition faced by the Government comes from the States. Both Labor and non-Labor States are united in their resistance to the extension of Commonwealth powers which has been a feature of the present Government's administration. The focal point for State disaffection is the financial power of the Commonwealth which, since the imposition of uniform taxation in 1941, has dominated all sources of tax revenue. The Bank Act, if upheld, will further consolidate Commonwealth control, rendering the Constitutional independence of the States completely nominal. To meet this situation, the non-Labor States took the lead in appealing to the High Court on the legal validity of the Act. Both Labor and non-Labor States plan to set up State Trading Banks if the Court decides in favor of nationalization. New South Wales, a Labor stronghold, has already empowered its Rural Bank to grant credit and overdrafts to all persons and corporate bodies.

The entry of the States into the trading bank field would accomplish two purposes. Because recent restrictions on the granting of credit do not apply Constitutionally to State banks, they could attract an important

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share of the bank business. This would prevent the Government from establishing a bank monopoly. In addition, the States would have an independent source of income, to mitigate the effects of uniform taxation and lessen their dependence on the Commonwealth.

Although it is proving to be politically costly, the Government is continuing to fight for a favorable High Court decision on the Bank Act. In order to offset this loss it is likely that the Government will carry through the proposed reorganization of the electorates and may make concessions in taxation in an attempt to regain the favor of the middle income groups. However, it is not likely that these moves alone will be sufficient to improve materially Labor's chances for re-election in 1949.

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